

Gaming Market Report

Introduction

This section provides an overview of the statewide and regional gaming markets. The Commission closely monitors the markets to determine whether they merit additional capacity. The Commission's charge is to issue licenses to applicants best serving the interests of the citizens of Missouri.¹ In order to fulfill this responsibility, the Commission evaluates each market to determine whether it can add new gaming capacity without unduly affecting previously licensed facilities.²

The Commission, in evaluating proposals for additional licenses, focuses on creating incremental growth, expansion of tax revenues, ancillary economic development and employment. Furthermore, it carefully scrutinizes the level of community support and the ability of the developer to minimize the negative social and economic impact of the facility. Thus, Missourians can expect the Commission to deal with expansion issues in a cautious and prudent manner that includes a lengthy public process.

However, should a facility become substandard, fall into disrepair or otherwise become non-competitive, the Commission would be forced to consider new projects of better quality that meet the high standards it sets for licensees. Operators of substandard facilities should not expect protection from the Commission. To the contrary, if a licensee allows its property to deteriorate and become inferior, it should expect the Commission to examine new projects that are more operationally sound.

¹ Section 313.805(1), RSMo.

² This is only one of many criteria the Commission evaluates when considering licensure found in 11 CSR 45-4.080.



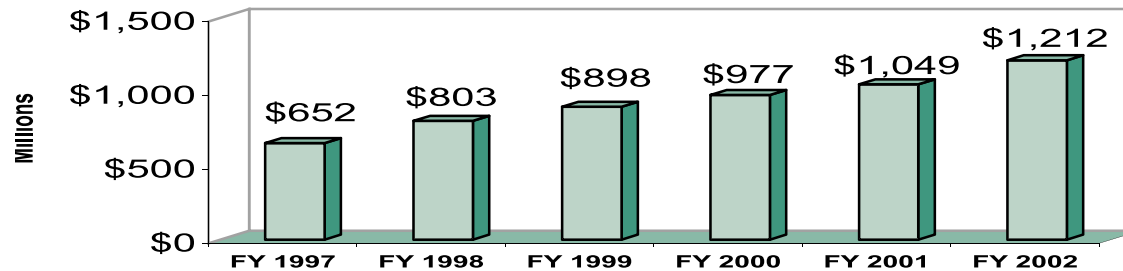
Statewide Market

Statewide gaming revenue topped out at just over \$1.2 billion in FY 2002, a 16% increase over the prior fiscal year. The gain reflects, in part, the two new casinos which opened during the fiscal year, generating nearly \$60 million in gaming revenue. Excluding the new casinos, gaming revenue increased 10% on a 6% decline in patron volume, offset by a 16% increase in Win Per Patron (WPP). WPP is the amount the casino wins, on average, from each patron. The decline in patron volume generally reflects fewer annual visits per patron as the casinos are primarily marketing to a core group of established gamblers as opposed to the masses. The increase in WPP was driven by the slot business thanks to a new generation of video, interactive and themed slot machines. These machines are typically nickel machines, which carry a higher slot hold percentage.

Based on the trend showing flat patron volume and stabilizing WPP, and the lack of new catalysts for growth, the Commission expects slow growth in general from the casinos in Missouri in the coming fiscal year. The table on the following page offers a statewide statistical comparison of FY 2001 and FY 2002.

	<u>FY 2002</u>	<u>FY 2001</u>	<u>% Change</u>
Gaming Revenue	\$ 1,212,125,000	\$ 1,049,013,000	15.5%
Patrons	22,566,000	22,701,000	-0.6%
Win Per Patron	\$ 53.71	\$ 46.21	16.2%

Statewide Gaming Revenue



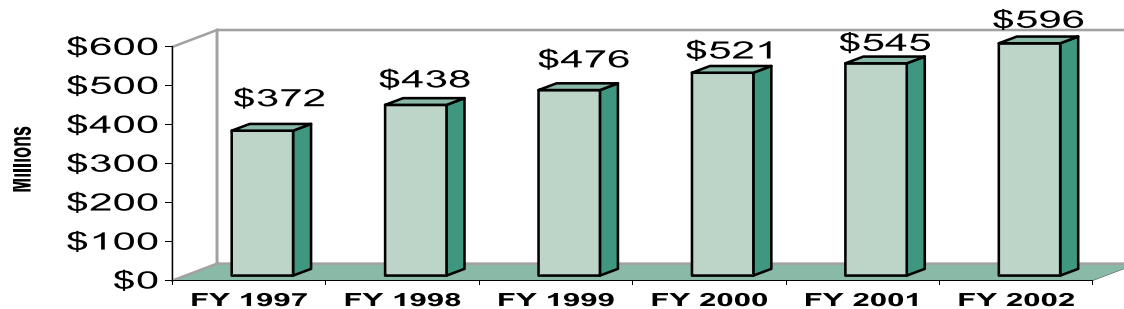
Kansas City Market

The Kansas City market posted gaming revenue of \$596 million for the fiscal year, an 8% increase over the prior year. The Kansas City market followed the statewide trends with regard to patron volume and WPP. Harrah's again beat out Ameristar for the top spot in the market, while Argosy beat the Isle for third place, but by a much narrower margin than in past fiscal years. In terms of gaming revenue, the Kansas City market moved into twelfth place, from fourteenth, out of the 34 markets in the United States.

Argosy has begun construction of their \$105 million expansion in Riverside, which will likely open in the first half of FY 2004. The expansion will feature a barge in a basin containing 50% more gaming space than the current boat, as well as additional amenities.

	<u>FY 2002</u>	<u>FY 2001</u>	<u>% Change</u>
Gaming Revenue	\$ 596,191,000	\$ 554,482,000	7.5%
Patrons	10,799,000	11,830,000	-8.9%
Win Per Patron	\$ 55.31	\$ 46.87	18.0%

Kansas City Market Gaming Revenue



St. Louis Market

The Missouri boats in the St. Louis market posted strong growth with gaming revenue of \$506 million, a 14% increase over the prior year. Again, the increase came despite lower patron volume. The President and Ameristar both recorded growth in excess of 20%. The coming fiscal year will likely see slower growth as WPP stabilizes. The \$190 million Ameristar expansion, which opened in August of 2002, nearly tripled the size of the casino and features seven dining and entertainment venues.

The Illinois boats in the St. Louis market posted gaming revenue of \$277 million, roughly the same as last year. The Illinois boats captured 35% of the gaming revenue in the St. Louis market, down from 38% in the prior year, partly due to the President becoming more competitive against the Casino Queen.³

In terms of gaming revenue, the total St. Louis market, including Illinois, continues to rank tenth out of 34 markets in the United States.

	<u>FY 2002</u>		<u>FY 2001</u>		<u>% Change</u>
<u>Missouri Boats</u>					
Gaming Revenue	\$	506,140,000	\$	445,658,000	13.6%
Patrons		9,652,000		9,940,000	-2.9%
Win Per Patron	\$	52.44	\$	44.83	17.0%
<u>Illinois Boats</u>					
Gaming Revenue	\$	277,344,000	\$	273,447,000	1.4%
Patrons		3,704,000		3,763,000	-1.6%
Win Per Patron	\$	74.88	\$	72.67	3.0%

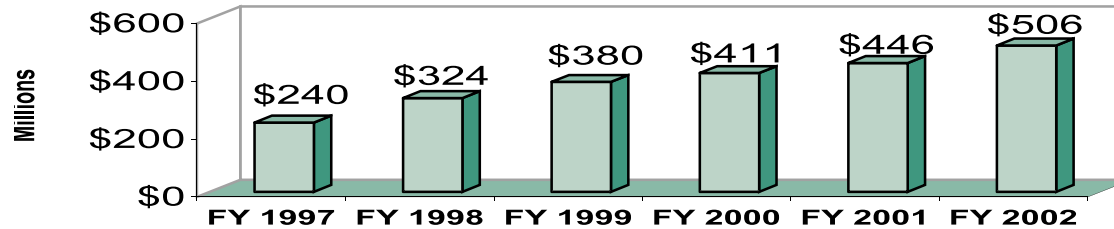
³ While the President has become more competitive against the Casino Queen following its move north in early 2001, it continues its qualitative slide when compared to other Missouri casinos. The President's total capital investment during its eight years of licensure is a distant last among metropolitan area licensees and most industry observers would rank the physical plant of the Isle of Capri in Boonville as far superior to the President's facility on the St. Louis riverfront.

Failed investments in Pennsylvania, New York, Louisiana, Mississippi and Indiana contributed to a pile of corporate debt that recently led to bankruptcy filings by the parent corporation and its Missouri subsidiary. The Commission staff is currently evaluating the St. Louis metropolitan market. During this process it will closely scrutinize the President's willingness and ability to develop a quality property in downtown St. Louis similar to those we have come to expect from metropolitan area licensees.

The failure of the President to develop a quality facility in downtown St. Louis has drawn the attention of St. Louis Mayor Francis Slay. Appearing before the Commission on May 23, 2002, Mayor Slay requested that the Commission, "require the President to submit a viable economic plan for increasing investment, job creation and tax revenue - a plan to make the President a destination attraction and a crown jewel of downtown St. Louis. We ask that you insist that this plan be submitted in the very near future, and that it be carried out. The President's owners should have a chance to improve their casino's economic performance. But they should come up with their improvement plan very soon, and they should demonstrate that they can get it done. In the alternative, the Commission should consider licensing new casino projects along the Riverfront - and encouraging developers to propose new projects."

St. Louis Market Gaming Revenue

Missouri Boats Only



Other Markets

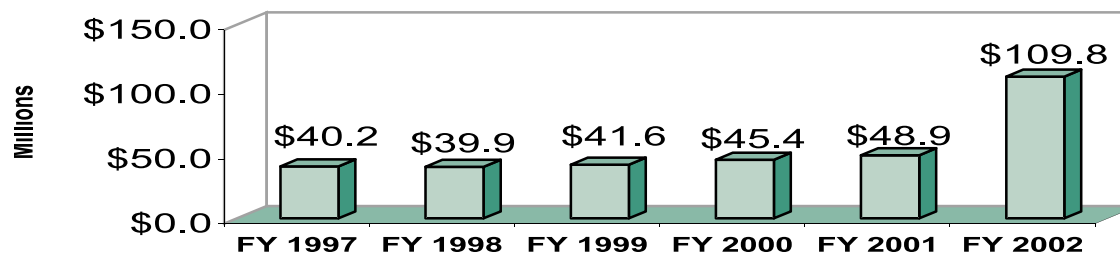
The small market casinos increased by two during the fiscal year as the Mark Twain Casino opened in LaGrange on July 25, 2001, and the Isle of Capri opened in Boonville on December 6, 2001. Both casinos are doing well and will likely hit their targets in terms of annual gaming revenue.

The existing small market casinos in Caruthersville and St. Joseph both posted slow growth of 3% for the fiscal year. The results again reflect fewer patrons offset by higher WPP. A slowdown in the regional economies of these markets will likely lead to a decline in gaming revenue for the coming fiscal year.



	<u>FY 2002</u>		<u>FY 2001</u>	<u>% Change</u>
Gaming Revenue	\$	109,794,000	\$ 48,873,000	124.7%
Patrons		2,134,000	931,000	129.2%
Win Per Patron	\$	51.45	\$ 52.50	-2.0%

Other Market Gaming Revenue



Slot Machine Evolution

The slot machine business has gone through a noteworthy evolution over the last couple of years. The days when the three-reeled spinning slots ruled the casino floor are over. They are being replaced by a new wave of interactive video machines. These machines are themed with popular TV shows, movies, games or other trademarks. They allow the slot player to play up to 180 coins at a time with as many as 20 pay lines. They are typically set-up to take play in increments of a dime, nickel or even a penny or two. This lower denomination category is somewhat of an illusion because a nickel machine set-up to play 90 coins yields a maximum play of \$4.50, where a quarter machine set-up to play three coins has a maximum play of only 75 cents.

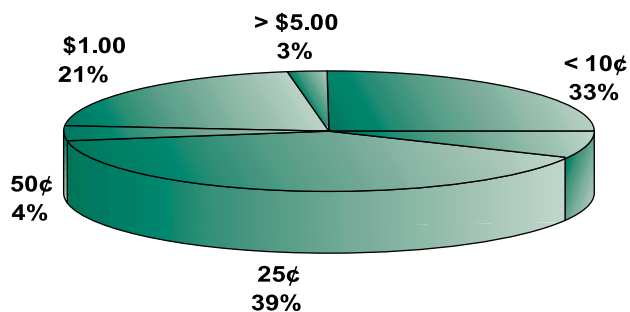
The wide-spread distribution in Missouri of these new slot machines hinged on the passing of legislation which expanded the definition of token to include electronic credits.⁴ This change gave the slot player the ability to receive slot machine credits by inserting paper currency into slot machines equipped with bill validators without inserting a physical token.

⁴ Section 313.805(13), RSMo

The financial returns from these devices indicate that consumer demand has driven this migration. In FY 2000 quarter slots generated 54% of the casino slot revenue, while the lower denomination slots generated only 13%. In FY 2002 the quarter slots accounted for 39% of the casino slot revenue, while the lower denomination slots generated 33%.

The shift has been profitable for the casinos. While patron volume has fallen over the last couple of years, gaming revenue continues to increase. Each patron on average is spending more money per visit, due in a large part to the slot evolution described. The lower denomination machines carry a higher casino slot hold percentage, therefore, for each dollar played through the new generation of slot machines, the casinos are realizing more revenue. The weighted average slot hold percentage has jumped from 5.7% in FY 2000 to 6.7% in FY 2002.

2002 Slot AGR Distribution By Denomination



2000 Slot AGR Distribution By Denomination

